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June 28, 1996

Mr. William F. Caton
Secretary
Federal Communications Commission
1919 M Street, N.W., Room 222
Washington, D. C. 20554

RE: Ex Parte Presentation
CC Docket 96-98
Implementation of the Local Competition Provisions in the Telecommunications Act of 1996

Dear Mr. Caton:

This letter responds to the request of Paul Galant of the Policy Division of the Commission's Common Carrier Bureau for information concerning matters discussed at our June 5, 1996 meeting.[1] At that meeting, AT&T discussed in detail its position regarding the unbundled local switching element, and the need for parity of operational support systems interfaces.

As to unbundled switching, we made clear that, as a threshold matter, the definition of unbundled switching that AT&T supports requires that the incumbent LEC make unbundled switching available on a "virtual" basis, unbundled from local loops, transport, and services. The unbundled element -- the virtual switch capacity -- would in no way necessitate that the ILEC physically or logically partition its existing switches. Rather, AT&T proposes that requesting carriers should be able to purchase local switching -- complete with all features, functions, and capabilities resident in the existing switch plant

[1] See Letter to Mr. William F. Caton, Acting Secretary, Federal Communications Commission, from Bruce K. Cox, Government Affairs Director, AT&T, dated June 6, 1996, regarding Ex Parte Presentation, CC Docket 96-98, Implementation of the Location Competition Provisions in the Telecommunications Act of 1996.

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-- on a line-specific basis. In effect, the requesting carrier would lease the capacity on a given switch required to provision local exchange and exchange access services for the particular line number of the local customer the requesting carrier serves from that switch.

In leasing unbundled switching, the requesting carrier would pay a proportionate share of all economic costs of that switch (based on number of lines supported and minutes of use utilized). In this way, the requesting carrier would be compensating the ILEC fully for the true costs of all features, functions, and capabilities resident on a switch (including costs of vertical features[2]), regardless of whether or not the requesting carrier orders any or all of such features activated for a particular line or lines. For example, if a requesting carrier has not sold any custom calling services to the retail customer at the time it initially orders the unbundled switching element for a particular line, it nonetheless would pay the full per-line cost of the switch to the ILEC. This would include costs associated with vertical features (e.g., allocation of Right to Use fees). If, at a later date, that requesting carrier succeeds in selling some custom calling feature (e.g., call waiting) to that particular end user, the requesting carrier would then submit an order to the ILEC directing that the feature be provisioned on that line. The requesting carrier would pay only the non-recurring service order charge to compensate the ILEC for the minimal labor costs of implementing the change in the end user's service profile, but would not incur any additional charges related to the vertical feature provisioned.[3] In such a scenario, the requesting carrier shares with the ILEC an equal burden of the cost (on a per line basis) as well as an equal risk in attempting to make a profit on that investment via retail marketing efforts.

The cost recovery and provisioning of Centrex features (which are fundamentally software-based) on a particular line or group of lines would be handled in similar fashion in that the incremental costs of Centrex capabilities on a particular switch would be allocated across all lines served by the switch, and provisioned at no additional costs to those lines ordered as such. To the extent the ILEC can demonstrate that there are

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2 In its recent order, the Illinois Commerce Commission rejected claims that vertical features should be not included within the unbundled switching element as "without basis and in direct violation of the federal Act's requirement that the network element includes the features, functions, and capabilities of the facility or equipment by definition." Order, AT&T Communications of Illinois, Inc., Petition for a total local exchange wholesale service tariff, Illinois Commerce Commission, Docket 95-0458 and 95-0531 consol., dated June 26, 1996, p. 65.

3 It is important to note that provisioning of vertical features concurrent with the initial provisioning of a line would not warrant even this service order charge, assuming that a service order charge is already incurred for initial provisioning. Provisioning of one or several features simultaneously with general line provisioning results in no incremental costs being incurred.

operating costs unique to Centrex service, a unique Centrex charge might be reasonably applied to Centrex-provisioned lines. However, AT&T believes that any such costs, if they exist at all, would be insignificant.

We also discussed concerns that other parties have raised regarding the potential for exhausting switch capacity in a competitive, unbundled environment. As a preliminary matter, AT&T notes that such concerns -- which must be based on anticipated increases in output in response to increased customer demand -- actually underscore the procompetitive benefits of the Act. The whole point of the Act is to end the restrictions on output and supracompetitive prices that result from the exercise of monopoly power by the incumbents. It would stand the Act on its head to limit or restrict the availability of network elements such as the switch because of the very increases in demand that the Act was intended to create.

Further, any increases in demand can readily be accommodated. Most immediately, because there is no need for partitioning of the switch, there would be no reason to reserve or warehouse existing capacity. As other parties have confirmed (NYNEX Comments, p. 32), AT&T reasonably expects that at least for an initial period, the unbundled switching that requesting carriers require will be used to serve customers who previously obtained their local service from the incumbent. Such churn will not place any incremental demands on the capacity of the switch.

As competition develops, and demand is stimulated, such growth will be accommodated in several ways. First, competing carriers will begin building competitive networks and installing new switches that will serve growing demand. Second, the ILECs have already engineered their switch base to accommodate projected growth. To the extent that planned-for growth in the LEC network, in combination with competitive switches that will be introduced into the market, are insufficient to meet the level of growth that in fact results, additional capacity may be needed. If such a case were to arise, the forecasts of all carriers using ILEC switching - including the incumbent itself - would be used to make the case for such investment.

In this regard, the forecasting process would be similar to the cooperative process by which network capacity has traditionally been augmented to meet growing exchange access demand. Specifically, interexchange carriers routinely provide the ILECs proprietary demand forecasts, so that ILEC networks could add capacity to meet growing access demand. All carriers involved in using ILEC facilities to provide local services might be expected to make a commitment over some period of time to pay their share of the incremental costs of additional investments, based on their individual forecasts. However, safeguards must be in place to (1) reduce the risk that the incumbents would overforecast their own demand, and thereby impose unwarranted costs on competitors whose unbundled switching demands alone would not necessitate additional investment

by the ILEC, and (2) to reduce the risk that the incumbents would misuse forecasts and other competitively sensitive information provided by competitors.[4]

As to the need for parity of operational interfaces, we discussed how, from a customer and cost perspective, no ALEC could provide local exchange services competitive with those of the ILEC -- whether using unbundled ILEC network elements pursuant to Section 251(c)(3), or reselling ILEC services pursuant to Section 251(c)(4) -- without electronic interfaces between ALEC and ILEC operational support systems that give ALECs the same ability to interface with the ILEC systems as the ILECs have. At bottom, ILECs must allow ALECs the opportunity to afford end users the same "customer experience" as the ILEC, by allowing parity of operational support systems interfaces for things such as real-time number assignment and scheduling of service visits, simplicity in the ordering and changing of service, etc.

As the Illinois Commerce Commission most recently determined in its June 26, 1996 order concerning the availability of wholesale local exchange services, "[t]he importance of equal operational interfaces is essential to the development of resale competition."[5] As the ICC explained, ALECs must have the opportunity "to provide every aspect of their retail customer contacts at parity with those provided to retail customers by the LECs," and "burdensome requirements" such as "a cumbersome 'new installation' type of order

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[4] Highly proprietary information is routinely and necessarily shared by interexchange carriers with their access suppliers, the ILECs. This information is required to accommodate anticipated growth in access demand, as well as for the development and provision of access services. So long as ILECs do not provide interLATA services, they have limited incentive and opportunity to misuse this information for their own competitive advantage. Of course, concerns with the potential for misuse of such information is substantially heightened when the receiving carrier provides services in competition with the providing carrier, as will occur in the local exchange market.

In this regard, rigorous safeguards are needed. The exchange of proprietary competitive information will be necessary between ALECs and ILECs. For example, demand data forecasts will be exchanged by carriers purchasing network elements, singly or in combination, and services for resale. Samples of the information to be exchanged are described in some of the filed interconnection agreements (e.g., Interconnection Agreement Under Sections 251 and 252 for the Telecommunication Act of 1996, between Ameritech Information Industry Services and MFS Intelenet of Illinois, Inc., dated May 17, 1996, p.11). Additionally, timeframes with respect to the receipt of forecast data before intended utilization are also specified (id., at 12).

[5] Order, AT&T Communications of Illinois, Inc., Petition for a total local exchange wholesale service tariff, Illinois Commerce Commission, Docket 95-0458 and 95-0531, consol., dated June 26, 1996, p. 51

process for simple transfers of existing service" would not be allowed (id.). AT&T submits that these findings are equally applicable to processes for ordering and provisioning network elements.

We also discussed that, to avoid the barrier to entry that would result from multiple disparate system interfaces, the Commission should require that access to operational support systems be afforded using uniform nationwide interfaces that would include transmission protocols, transaction sets, and data elements, as well as standard quality measures. AT&T explained how this could be accomplished efficiently through separate "gateway" systems that would also eliminate any claim that electronic interfaces could either cause harm to the ILEC network or risk disclosure of proprietary ILEC or customer information to the ALEC.

We also briefly considered the artificial and substantial barrier to entry that would arise if the ILEC could refuse to allow an ALEC efficiently to order, by way of a uniform service order code or other descriptor, combinations of unbundled network elements in a single consolidated order, or otherwise refuse to provide coordinated provisioning, maintenance or recordkeeping for network elements that are ordered in combination. These functions are essential for ALECs quickly and efficiently to utilize unbundled network elements in the provision of local exchange and exchange access services. No ILEC has identified any legitimate basis for refusing to perform these functions for combinations of network elements. Such a refusal could only be attributed to the ILEC's desire to make the use of unbundled network elements prohibitively costly and cumbersome.

Sincerely,

Bruce K. Cox

cc: P. Galant